Impact certification assessment

Members-only call

EVPA becomes **Impact Europe**
The Investing for Impact Network

Impact Europe

Why a market assessment?

The increased popularity of the impact narrative, the entrance of mainstream financial actors in the impact investing space and the absence of a clear regulatory framework and taxonomy at EU level is creating growing concerns of impact- and green-washing among the impact investors community.

In this context, at Impact Europe is conducting a market assessment to explore the potential and the value of a European **impact label and certification** in reinforcing transparency, effectiveness and credibility within the impact ecosystem.

And today, we want to hear your opinion!

Objectives of today's call

Get your perspective on needs, opportunities and challenges to implement a European impact label/ certification process

Understand your views on the current landscape of impact certifications and labels

Agenda of this one hour and half

General welcome and introduction

Our market assessment: main definitions & preliminary findings

Plenary discussion on opportunities and challenges

Group discussion #1: Market needs, opportunities and incentives

Group discussion #2: Scope, application and lifecycle

Plenary debrief

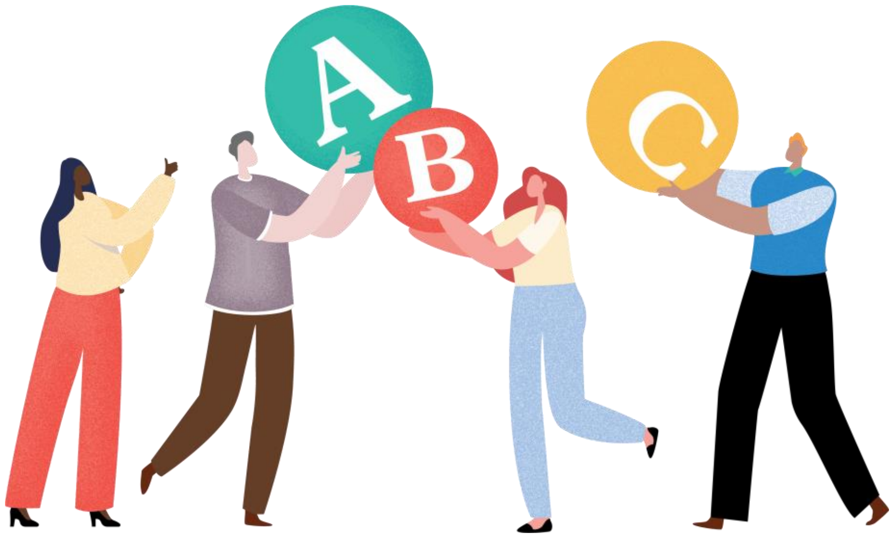
Closing and next steps

ESMA Funds' Names Guidelines

1. Purpose

The **name of a fund** is a means of communicating information about the fund to investors and is also an important marketing tool for the fund.

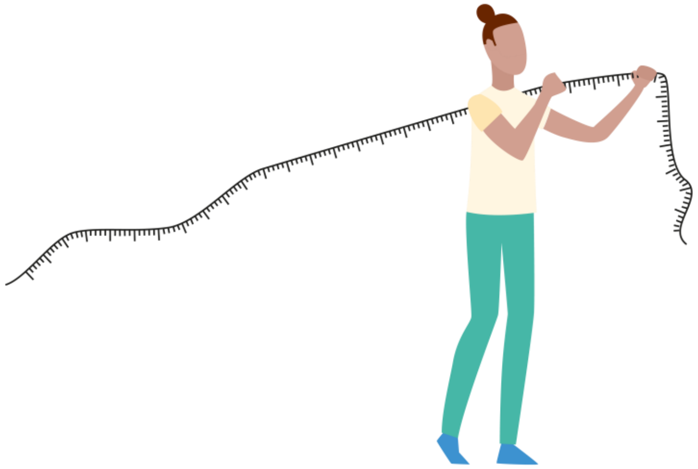
A fund's name is often the first piece of fund information investors see and, while investors should go beyond the name itself and look closely at a fund's underlying disclosures, a fund's name can have a significant impact on their investment decisions.



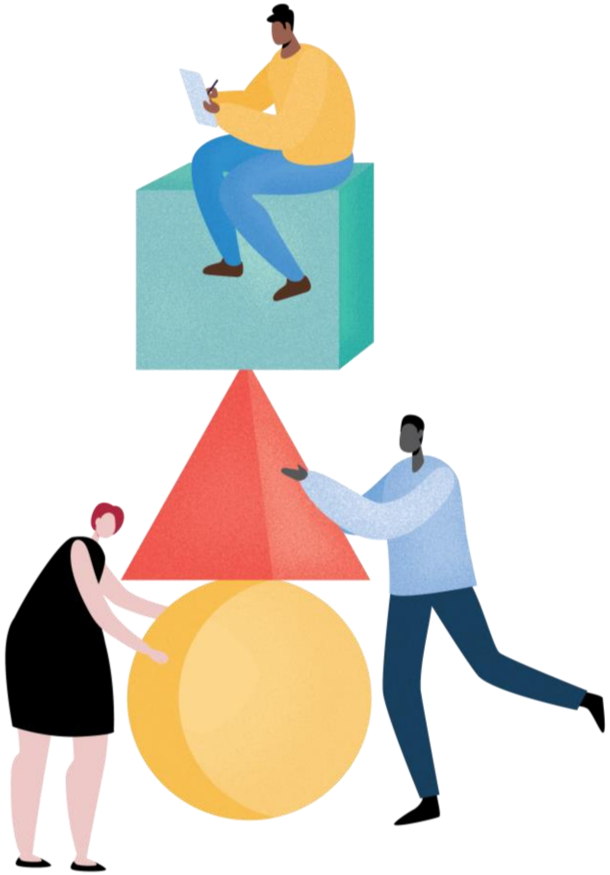
2. Recognition of impact investing

ESMA believes that it is necessary to single out **impact terms** in fund names, as those terms represent a particular **strategy** for investors presented with the name, where the emphasis is not only on a financial performance but rather on the **impact** these funds may achieve on their objective.

In addition to the proposed requirements, funds using an impact-related word in their name should also **demonstrate a positive, measurable impact**.



3. Scope



ESMA Funds' Names Guidelines apply to:

- UCITS management companies, including any UCITS which has not designated a UCITS management company;
- Alternative Investment Fund Managers, including internally managed;
- European Venture Capital Funds (EuVECA), European Social Entrepreneurship Funds (EuSEF), European Long-Term Investment Funds (ELTIF) and Money Market Funds (MMF) managers;
- Competent authorities.

4. Application timeline

ESMA Funds' Names Guidelines apply **three months** after the date of the publication of the guidelines on ESMA's website in all EU official languages.

Immediately → For any new funds created after the date of application of the guidelines.

Six months from the application date of the Guidelines → For any funds existing before the date of application of the guidelines.

5. Key provisions

Key terms	Derivations	Recommendation	Exclusion criteria	Additional criteria
Impact	**Impact, impacting, impactful etc.**	Meet an **80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy** (Annexes II and III of CDR (EU) 2022/1288)	**Exclusions according to Paris-aligned Benchmarks:** ▪ Activities related to controversial weapons, ▪ Cultivation and production of tobacco; ▪ Companies in violation of the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises (MNEs) ▪ Companies >1% revenues from hard coal and lignite ▪ Companies >10% revenues from oil fuels ▪ Companies >50% revenues from gaseous fuels ▪ Companies >50% revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh	**+ investments meeting 80% threshold are made with the objective to generate a positive and measurable social or environmental impact alongside a financial return**
Sustainability	Sustainable, sustainably, sustainability etc.			+ commit to invest meaningfully in sustainable investments referred to in Article 2(17) of the SFDR
Environmental	Green, environmental, climate, ESG, SRI etc.			No additional criteria
Transition	Transitioning, transition, progress, evolution, net-zero transformation, etc.		Exclusions according to Climate Transition Benchmarks: ▪ Activities related to controversial weapons, ▪ Cultivation and production of tobacco; ▪ Companies in violation of the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises (MNEs)	+ investments meeting 80% threshold are on a clear and measurable path to social or environmental transition
Social	Social, equality etc.			No additional criteria
Governance	Governance, controversies etc.			No additional criteria

6. Supervisory expectations

A temporary deviation from the threshold and the exclusions, should be treated as a passive breach and corrected in the best interest of the investors, provided that the deviation is not due to a deliberate choice by the Fund Manager.

Competent authorities to

1. Investigate further, or
2. Engage in a supervisory dialogue with the Fund Manager

- If there are discrepancies in the level of the qualitative threshold which are not passive breaches;
- A fund does not demonstrate sufficiently high level of investments to use relevant term in its name;

EU SFDR? The way forward with an impact category… (73%)

Introduction to impact certification

What we've heard so far (I)

- Concerns around impact washing are on the rise as the impact sector is growing fast without proper regulatory framework and social taxonomy at the EU level.

- Impact certifications and labels build consensus on what constitutes impact investing. These initiatives mitigate impact washing while "raising the bar" of impact practices. Thus, they have potential to mobilise more private capital to be effectively deployed for impact.

- **Impact labels** are a protected, distinctive mark, set up by a public body, an association or a professional organisation. **Impact certifications** are the process by which an independent body validates compliance with the specifications of an organisation. In practice, both concepts are often used interchangeably as they have overlapping objectives and business models.

- Impact certifications/labels are usually focused on assessing investors' practices, but they have the potential to also evaluate the impact potential of their assets' allocation.

What we’ve heard so far (II)

- Different organisations are developing standards and creating methodologies for impact labels and certifications – with different ambitions and target audiences.

- Impact certifications/labels have a two-fold objective:

    - **Market recognition:** sending a signal to the market that an impact fund abides by a certain processes and criteria can help GPs’ communication with LPs (including fundraising), and LPs’ decision-making.
    - **Practice improvement:** Funds going through the process of obtaining a label/certification have the opportunity to refine issues such as the investment policy, governance or impact management practices.

- All the initiatives have similar **business models,** which rely typically on **fees** for obtaining or keeping the certification/label, and sometimes also **verification** or **capacity building** services.

Existing labels and certifications

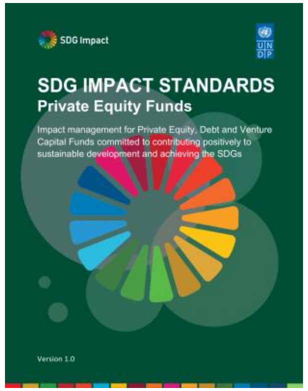
Certifications

INSTITUT DE LA FINANCE DURABLE
PARIS EUROPLACE

Operating Principles for Impact Management

Gold Standard®

FORUM ETHIBEL



Labels

Certified B Corporation

label finansol.

LUXFLAG
Supporting Sustainable Finance

Common opportunities

- **Standardisation of practices and processes:** certifications help standardising the sector as are based on common consensus on what's the minimum threshold to be considered impact investor.
- **Strengthening impact intentionality and governance:** most certifications emphasise the need for clarifying impact objectives and aligning investment criteria and governance to those objectives.
- **Improving impact management frameworks:** through external verification process, certified organisations receive recommendations to fine-tune their IMM approach, especially the first time that they obtain it.
- **Increased transparency and accountability:** recognising impact as a different strategy within the sustainable finance sector and sharing widely the most adopted impact practices.
- **Better communication between GPs and LPs**: including fundraising for GPs and effective decision-making for LPs.

Common challenges

- **Not all funds are equally incentivised to obtain a certification:** GPs with fewer resources and capacity to go through an external verification process might be deterred to pursue an external certification/label.

- **Incentives for being certified reduce over time:** learnings from an external verification might be less and less relevant if they go through the same sets of questions.

- **Certifications fail to recognise the variety of strategies within the impact ecosystem:** as certifications look for wide adoption, they tend to look at the "high-level" picture of the fund to ensure they work across asset classes and impact strategies.

- **Certifications fail to recognise contextual factors that determine funds' activities:** for example, questions around DEI issues will differ greatly across geographies.

- To date, **no certification has been enough widely adopted** to become a true distinctive for impact funds' market recognition.

- **The market is already crowded and fragmented:** GPs and LPs are already devoting too much effort in navigating the landscape of certifications and labels. New products are adding more confusion.

What do you think?

Panel discussion: first round of feedback

- **How do the opportunties and challenges resonate to you?**
- **What are some ideas to mitigate the challenges identified?**

Opportunities	**Challenges**
Standardisation of processes and practices	Not all funds are equally incentivised
Strengthening intentionality and governance	Incentives reduce over time
Improving IMM frameworks	Recognising a variety of impact strategies
Increased transparency and accountability	Recognising different contextual factors
Greater communication between GPs and LPs	Lack of wide adoption to gain market recognition
	Market already crowded and fragmented

Group discussions: a European impact certification

Discussions of today

- **Two rounds of breakout discussion** – 20 min' of breakout discussion followed by 10 min' of plenary follow-up.
- Breakout rooms will be recorded for internal purposes

Group discussion #1	Market needs, opportunities, incentives
Group discussion #2	Scope, application, lifecycle

Group discussion #1

A European impact certification: market needs, opportunities and incentives

1. What value would European-wide recognised certification/label bring? Why?
2. What would be the most important incentives for you to apply for an impact label?
   a) Market recognition
   b) "Advisory" component / internal capacity building
   c) Regulatory incentives (e.g. reporting)
   d) Fiscal incentives
   e) Others
3. What role could a label/ certification play in fostering impact transparency?
4. Do/can labels and certifications play a role in facilitating fundraising?
5. How could the European regulatory framework help in fostering transparency and effective impact capital allocation?
6. Who should pay for a certification and how much?

Group discussion #2

A European impact certification: scope, application, lifecycle

1. Scope and level of granularity in assessing funds' *impact practices,* including additionality
   a) <u>Intentionality:</u> impact objectives, ToC, impact governance, integration of ToC/objectives into investment strategy
   b) <u>Measurability:</u> regular publication of results at investee and investor level
   c) <u>Additionality:</u> financial additionality, non-financial additionality

2. (How) should funds' *impact performance* be captured in a label/certification?
   a) <u>Investor contribution:</u> evolution of investees from beginning to end of investment
   b) <u>Additionality:</u> how underfinanced were the investees supported

3. Other considerations: how to account for funds' size, life span, capacities…?
4. Do you see a value of a certification in improving funds capacity/ effectiveness?

Closing

Thank you!

If you want to continue this conversation, Join our Capital Ideas event in The Hague!

We'll hold a session on the topic: "**The role of transparency in driving more impact through assurance and certification**" on Wednesday 12 June 14:45 – 16:00.

For more information, visit: https://www.businessofimpact.org/thehague/home

Please fill in the evaluation!

https://form.typeform.com/to/cCoD8EKk

Funded by the
European Union